

This information is one of a series of consumer guides made available by the Department of Financial Institutions to help you get more for your money.

Read it to learn how to avoid paying more than you need to when you borrow or buy on credit. Because credit is widespread and readily available, using credit wisely is more important than ever before.

TYPES OF CREDIT

All credit is either "*closed-end*" or "*open-end*." With "*closed-end credit*," you borrow a fixed amount for a certain period of time and must repay in regular installments (usually monthly). The finance charge (interest) you pay is added to the fixed amount you borrowed, and repaid over the term of the credit.

Credit cards are the most common examples of "*open-end credit*" and are sometimes called revolving charge or loan accounts. The finance charge (interest) you pay under an open-end credit plan is figured differently than for closed-end credit. Here, the amount of interest you pay depends on the size of the unpaid balance each month. The larger the amount you leave unpaid each month, the greater the finance charges you must pay. Also pay attention to the balance the credit card issuer uses to compute their interest; most companies use the "average daily balance," some companies use "adjusted balance" (least expensive for you), or the "previous balance" (most expensive)

Consumer credit transactions include all credit that is for a **personal, family, or household purpose**. The Indiana Uniform Consumer Credit Code regulates consumer credit you can get from a bank, consumer finance company, a savings and loan association, a credit union, or a credit seller. **Credit for a business purpose is unregulated in Indiana.**

MAXIMUM RATES

Knowing the maximum rate allowed in Indiana will help you to determine whether the credit transaction you are planning to make is a "good deal" or not. You should shop for credit just like you shop for a new car.

Under the Indiana Uniform Consumer Credit Code, the maximum interest rates effective 07/01/04 are as follows: a melded step-rate of **36% on portions of the amount financed up to \$990, 21% on the portion from \$990.01 up to \$3,300, and 15% on the portion exceeding \$3,300 or 21% whichever is greater.**

A creditor may also contract and receive a **minimum finance charge not to exceed \$39.00.**

For example the maximum rate for a \$500.00 credit transaction would be 36%; the maximum rate on \$2,000.00

for 24 months would be 30.86%; and the maximum rate on \$8,000.00 would be 21%.

Not all lenders, credit card companies, and merchants charge the maximum rate. So compare interest rates. All creditors must disclose their rate as an **ANNUAL PERCENTAGE RATE**. **This is the rate you must compare to cut your credit costs.**

PURPOSE OF CREDIT

The purpose of the credit transaction can affect the rate. For instance, a first mortgage loan will have a lower rate of interest than a second mortgage loan. The rate of interest is usually lower when you finance the purchase of a new car than if you purchase a used car. Credit card and small loan interest is usually high.

WHERE TO GET CREDIT

As explained above, the type of credit you select may make a difference in what you'll pay for that credit. Just as important is where you get credit. It pays to compare costs and services. You can begin by considering the services offered by each of the following sources....

Banks/Saving Associations... offer a wide range of consumer credit including small loans with or without collateral; loans and other financing for major purchases such as homes, automobiles, and home improvement. Most banks also offer bank credit cards which are widely accepted by stores and which can be used for cash advances at many banks. Banks also offer the convenience of "overdraft" checking.

Credit Unions... offer consumer loans "for any worthwhile purpose" to **members only**. Credit unions are usually conveniently located at or near the borrower's place of employment. Credit unions also take deposits and pay interest as well as offer credit cards and overdraft checking.

Consumer Finance Companies... offer loans and financing for all purposes to the general public. Such companies generally have longer office hours and are conveniently located.

Insurance Companies... commonly offer loans to holders of their whole life (not term) insurance policies. The loans are frequently limited to cash value of the policy held by the borrower and must be applied for through the insurance agent or the company's home office.

Merchants... are not lenders, as such, but commonly offer financing services. Most merchants will sell "on time," arrange financing for the buyer, or offer credit through the use of their store's credit card.

The key to avoid paying more than you need to for credit is to take the time to check with more than one type of credit source. Rates, as well as services, also vary greatly among the different types of lenders. You should check at least two of each of these types of creditors. Your final decision might rest as much on convenience or goodwill as on rate.

EXTRAS YOU WANT OR DON'T WANT

Lenders are in business to make money just like any other merchant and they will try to sell you on their "extra" products such as credit insurance, property insurance on your car or furniture, other types of life or accident insurance, auto or travel clubs, etc. Credit life or accident insurance on the loan **must be voluntary**. A creditor can require that property securing the loan be insured, but you must have the right to choose your own insurance.

These "extra" items can increase the cost of credit, do not be pressured into taking these items if you do not want them; be prepared to say "no."

CREDIT TERM

The term of the credit can also affect the total cost of the credit transaction. The shorter the term, the cheaper the credit costs. Try to set the term for the largest monthly payment your budget will allow.

Paying off credit card balances in a timely manner will also cut your credit costs greatly. Always pay more than the minimum monthly payment. It can take years and years to pay-off the balance with the minimum payment and costs you hundreds of dollars in interest.

PREPAYMENT PENALTY PROVISIONS

Always be aware of any prepayment penalty provisions on loans secured by an interest in land such as first or second mortgages. The penalties apply during the first three years on second mortgage loans in Indiana with the maximum penalty being two percent (2%) of the net unpaid balance after deducting all refunds and rebates as of the date of the prepayment. A penalty may not be imposed if the loan is refinanced or consolidated with the same creditor or if prepaid by the proceeds of any insurance or acceleration after default. Penalties on first lien mortgage transaction are unregulated; so look at those provisions closely.

Prepayment of a loan with a prepayment penalty can be very costly.

As you can see, there are many aspects to look into when considering credit transactions. Taking time to shop for the best credit rate and term available for your transaction will **CUT THE COST OF YOUR CREDIT.**



The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

Advance Fee Loan Scams
Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Auto Ads
Auto Leasing
Auto Service Contracts
Automatic Debit Scams
Bankruptcy Facts
Big Traps Lurking in Tiny Type
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing a Loan
Credit Card Loss Protection Offers
Credit Cards that take Security Interest
Credit & ATM Cards
Credit & Divorce
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Look Before you Lease
Mortgage Loans
Older Consumers
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Shopping for Credit
Using Credit Cards
Variable Rate Credit
What is a Budget?
What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.



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HOW TO CUT THE COSTS OF CREDIT



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